



September 15, 2017

Postal Regulatory Commission
901 New York Avenue, N.W., Suite 200
Washington DC 20268

Re: Docket No. RM2017-12

Dear Chairman Taub and Members of the Commission:

I am writing to express my opposition to the proposal of the Postal Service to change the formula adopted by the Commission in R2008-1 for implementing 39 U.S.C. § 3626(a)(6), which requires that rates be set so that the estimated average revenue per piece from nonprofit Marketing Mail equals, as nearly as practicable, 60 percent of the average revenue per piece from commercial Marketing Mail.

I write from two perspectives. The first is as Senior Vice President and Chief Government Affairs Officer of the YMCA, a position I have held since 2012. The YMCA, like many other nonprofit organizations, relies on nonprofit Marketing Mail to raise funds and communicate with members, donors, and the communities we serve. The sizeable and unexpected increases in mailing costs that would result from the USPS proposal would reduce the resources available for our nonprofit mission.

You will probably receive many letters and comments from other nonprofit organizations on this point, however. So I want to focus on the USPS proposal from a second perspective. As you know, I was Assistant Director and then Executive Director of the Alliance of Nonprofit Mailers from 1986 through 2005. I personally represented ANM in negotiating and obtaining Capitol Hill and industry support for the draft legislation that culminated in the enactment of Section 3626(a)(6) in 2000. I hope that my perspective

may be useful as the Commission reviews the Postal Service's current proposal.

The Revenue Forgone Reform Act of 1993 required that nonprofit Third-Class rates be set so that their average markup over the costs attributable to nonprofit Third-Class mail would be one-half the average markup of commercial Third-class rates over the attributable costs of commercial Third-Class mail. By the late 1990s, there was general agreement that this formula, known as the 50-percent markup rule, was unworkable. The Postal Service's attributable cost data for nonprofit mail and other preferred rate mail had become unreliable, and application of the statutory markup to the increasingly erratic data threatened preferred rate mailers with increasingly wide and unpredictable fluctuations in preferred postal rates.

In 2000, I joined with others to begin discussions with good friends on Capitol Hill and representatives of the Postal Service and with other mailer groups to discuss a possible legislative fix to this problem. For most of the preferred rate subclasses, the solution was straightforward: nonprofit rates could be set by applying a uniform (except for rounding) discount percentage to the corresponding commercial rates. This approach was not practical for nonprofit Standard Mail, however, because, for any Standard Mail mailpiece with a given set of billing determinants, the average nonprofit rate was about 25-27 percent less than the average commercial rate. Simply applying a discount of this magnitude to each Standard Mail rate element would yield a nonprofit rate structure with worksharing discounts that were markedly below cost avoidances. Accordingly, the parties agreed instead on a different approach for Standard Mail. For this mail, rates would be set so that the average revenue per piece of each nonprofit subclass would be about 40 percent below the average revenue per piece of "the most closely corresponding regular-rate subclass." A discount of 40 percent in average revenue per piece yielded an effective discount of about 25-27 percent after accounting for the different mail mix of nonprofit mail. This approach was enacted into law at Pub. L. No. 106-384, and codified at 39 U.S.C. § 3626(a)(6). (I keep a copy in my den.)

All of the parties to the negotiations understood that this approach, unlike the discount formula adopted for the other preferred rate categories, could result in effective rate preferences that might widen or narrow as the mixes

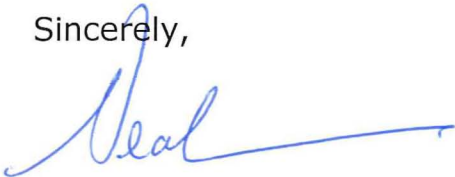
of mail within nonprofit and commercial Standard Mail diverged over time. But we recognized that this possibility was a reasonable price to pay for a statutory formula that insulated nonprofit Standard Mail from the vagaries of nonprofit-specific attributable cost estimates while allowing for worksharing discounts that reflected the full costs avoided by worksharing.

We were all grateful to legislators and staff because the 2000 formula was well-designed to protect nonprofit Standard Mail rates from large and unpredictable rate swings, and to do so through a formula that could not be manipulated by the Postal Service.

It's been some years since that compromise was crafted, but I was still a bit surprised when I reviewed the Postal Service's July 31 petition in this docket. The USPS appears to be reversing the working interpretation of Section 3626(a)(6) that was proposed by the USPS and approved by the PRC without opposition from commercial mailers in R2008-1 after the Postal Accountability and Enhancement Act of 2006 eliminated regular and ECR mail subclasses of Standard Mail. The current interpretation has achieved the goals of the 2000 legislation without any significant divergence between nonprofit and commercial Standard Mail rates since R2008-1.

I respectfully suggest that the approach to setting rates for nonprofit, preferred rate mail, now advocated by the Postal Service in RM2017-12, would be inconsistent with the legislative goals and intent of the 2000 legislation.

Sincerely,

A handwritten signature in blue ink, appearing to read "Neal", followed by a long horizontal flourish.

Neal Denton, CAE
Senior Vice President, Chief Government Affairs Officer
YMCA of the USA